

**Date:** February 17, 2014

**To:** Thomas J. Bonfield, City Manager  
**Through:** Wanda Page, Deputy City Manager  
**From:** David Boyd, Finance Director  
Glenn LeGrande, Risk Manager  
**Subject:** Annual Insurance Plan 2014-2015

### **Executive Summary**

The Finance Department has prepared the annual insurance plan for adoption by the City Council. The plan summarizes all property and casualty insurance related coverage and is the basis for authorization of insurance purchases throughout the year. Most of the City's insurance renewals are due April 1<sup>st</sup>. The City's annual property and casualty insurance plan has been prepared jointly by the Finance Department and Arthur J. Gallagher, the City's property casualty and risk management broker/consultant.

The proposed 2014-2015 plan continues the existing insurance coverage. In addition to the specific coverages listed in the attachment, the City Manager may need to purchase other insurance and/or modify insurance coverage during the year as needed to protect the City's interest.

### **Recommendation**

The Finance Department recommends that the City Council authorize the City Manager to:

1. Maintain the general insurance plan as attached and modify it as needed, provided the modifications are consistent with the City's overall risk management and financial objectives.
2. Purchase additional insurance throughout the year, as needed for special events, lease and contract requirements, new programs, and builders risk insurance.
3. Expend an amount for all insurance premiums not to exceed \$958,058.00 to maintain the annual insurance plan and make additional insurance purchases as needed beginning April 1, 2014.

### **Market Conditions and Analysis**

The overall proposed property and casualty insurance premium for policy year 2014-2015 is a 12.01% increase (\$91,723.00) over the expiring premium. This increase is a direct reflection of various factors which include the commercial insurance market, claim payments reaching/exceeding self-insured retention, as well as exposure based increases.

Overall the commercial insurance marketplace has not been as volatile as in recent years. Most lines of coverage in the City insurance plan have moderate increases which are attributable to some rate movement as well as increases in exposures (i.e. values, payroll).

However, the excess liability line of coverage is once again affected by two large claim settlements within the past 18 months. In addition to amounts paid by the City within the retention limits, the excess carrier has also paid roughly \$2.0 million. As noted in the Insurance Plan Proposal 2014-2015, the excess liability premium has increased 39.89% (\$70,226.00) over the expiring premium. The excess liability line of coverage is the major contributor to the City's overall premium increase.

It is important to note the current carrier was insistent on moving the City to a \$2.0 million retention level. Through vigorous negotiations the insurance broker was able to maintain the retention level at \$1.5 million

The attached Insurance Plan Proposal includes the following limits and SIR levels:

- Excess Liability at \$10 million limit with self-insured retention (SIR) of \$1.5 million
- Commercial property at \$300 million blanket limit with SIR of \$150,000.00
- Excess workers compensation at \$25 million limit with SIR of \$1 million

### **Financial Impact**

The cost of insurance premiums for general citywide policies are budgeted and paid from the City's Risk Fund. This fund is comprised of funding from the City's General Fund, Water and Sewer Fund and other enterprise funds that may contribute to the City's exposure.

The following table summarizes the proposed Insurance Plan for 2014-2015 with contingencies for additional insurance purchases:

| <u>Insurance Category</u> | <u>Renewal Cost</u> |
|---------------------------|---------------------|
| General City Policies     | \$773,111.00        |
| Departmental Policies     | <u>\$ 82,298.00</u> |
| Total Insurance           | \$855,409.00        |
| Contingencies @ 12%       | \$102,649.00        |
| Total Authorization       | \$958,058.00        |

### **Issues and Analysis**

The City purchases insurance only when the terms and pricing of insurance are the most favorable risk-financing option, or when the loss potential is beyond the City's ability to retain the risk. The City retains all risk that is not transferred either by the purchase of insurance or by contract. Through its risk management practices, the City strives to identify risk and to make prudent choices concerning risk financing. Insurance policies are maintained for a one (1) year term, with appropriate adjustments throughout the year as necessary to reflect changes in risk.

The City's quoted insurance renewal premium totals \$855,409.00. Currently three lines of coverage account for 83% (\$707,770.99) of total renewal premium. The lines of coverage are excess liability, excess workers compensation and commercial property.

The City's insurance broker Arthur J. Gallagher, will be tasked with exploring various options in the marketplace during the 2015-2016 renewal period relative to cost containment of our leading coverage cost drivers.

**SDBE Summary**

This item was not reviewed by the Department of Equal Opportunity/Equity Assurance for compliance with the Ordinance to Promote Equal Business Opportunities in City contracting.

**Attachment**

Insurance Plan Proposal 2014-2015